

The impact of ownership structure on corporate reputation: evidence from Spain

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**THE IMPACT OF OWNERSHIP STRUCTURE ON CORPORATE
REPUTATION: EVIDENCE FROM SPAIN**

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THE IMPACT OF OWNERSHIP STRUCTURE ON CORPORATE REPUTATION:
EVIDENCE FROM SPAIN

ABSTRACT

Manuscript Type: Empirical

Research Question/Issue: This study examines the influence of firms’ ownership structure on corporate reputation.

Research Findings/ Insights: Using archival data from a panel of firms in Spain for 2000–2007, we found that ownership concentration in the hands of the largest shareholder erodes corporate reputation, whereas contestability of the main shareholder’s power enhances it. Insider ownership shows a non-linear relationship with corporate reputation, with lower corporate reputation at low and very high levels of insider ownership. Finally, if the largest shareholder is either a pressure-resistant or a pressure-sensitive institutional investor, as opposed to other types of largest shareholder, corporate reputation is lower. This last finding markedly differentiates our sample of firms in Spain, a civil law country, from firms in common law countries such as the USA and the UK, where studies have found a positive relationship between institutional investors and corporate reputation.

Theoretical/Academic Implications: Drawing on signaling and agency theories, our paper is, to the best of our knowledge, the first to analyze the influence of ownership structure on corporate reputation in civil law countries.

Practitioners/Policy Implications: This study suggests that managers and directors should recognize how each characteristic of ownership structure influences the expectations of stakeholders. Low levels of ownership concentration in the hands of the largest shareholders, low differences in ownership concentration between first and second largest shareholders, and moderate levels of insider ownership are positive signals that should be

communicated to foster corporate reputation. High levels of ownership concentration in the hands of the largest shareholders or high differences in ownership concentration between first and second largest shareholders impair corporate reputation and should be compensated by introducing corporate governance mechanisms that favor corporate reputation, such as increasing the number of independent directors or avoiding CEO duality

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INTRODUCTION

There is a large body of research analyzing the influence of ownership structure on firm outcomes (e.g., Demsetz & Lehn, 1985; Gedajlovic & Shapiro, 1998; Miguel, Pindado, & Torre, 2004; Morck, Shleifer, & Vishny, 1988; Tribó, Berrone, & Surroca, 2007). Among these outcomes, several researchers have shown that ownership structure may affect corporate reputation (Brammer & Millington, 2005; Brammer & Pavelin, 2006; Fombrun & Shanley, 1990). The analysis of the influence of ownership structure on corporate reputation is relevant since corporate reputation influences stakeholders' responses toward the firm. For instance, corporate reputation affects a customer's choice among competing products (Akerlof, 1970), increases customer retention (Caminity, 1992; Selnes, 1994) and premium price (Shapiro, 1983), makes the firm an employer of choice (Stigler, 1962; Williamson, 1985), reduces contracting and monitoring costs because suppliers and partners are less concerned about contractual hazards (Milgrom & Roberts, 1992); and also supports new product introductions and recovery strategies in the event of crisis (Dowling, 2001). In this sense, corporate reputation affects a firm's future financial performance (e.g., Roberts & Dowling, 2002; Vergin & Quoronfleh, 1998).

However, the few studies analyzing the influence of ownership structure on corporate reputation (Brammer & Millington, 2005; Brammer & Pavelin, 2006; Fombrun & Shanley, 1990) have focused only on common law countries and on the impact of institutional ownership. Furthermore, they have considered institutional owners as a homogeneous group. Their evidence suggests three research issues that we address below. First, we consider how this evidence applies in civil law countries, where large blockholders have an active role in corporate behavior.¹ Second, we argue that ownership

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3 structure characteristics other than institutional ownership also influence corporate
4 reputation. Finally, since different types of institutional investors may behave differently
5 (e.g., Borokhovich, Brunarski, Harman, & Parrino, 2006; Brickley, Lease, & Smith, 1988;
6 Kochhar & Davbid, 1996; Ruiz-Mallorqui & Santana-Martín, 2009), we examine how
7 different types of institutional investors may differently influence corporate reputation.
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11 The literature has provided several definitions of corporate reputation. Wartick
12 (1992:34) defined corporate reputation as “the aggregation of a single stakeholder’s
13 perceptions of how well organizational responses are meeting the demands and
14 expectations of many organizational stakeholders.” Following similar arguments, Fombrun
15 (2002:9) proposed that “corporate reputation is the collective representation of a company’s
16 past actions and future prospects that describes how key resource providers interpret a
17 company’s initiatives and assess its ability to deliver valued outcomes.” Finally, Waddock
18 (2000:323) proposed that reputation is the “organization’s perceived capacity to meet its
19 stakeholders’ expectations.” These definitions show, first, that corporate reputation is based
20 on expectations about the ability of a firm to satisfy its stakeholders and, second, that it is
21 built by the aggregation of all stakeholders’ expectations.
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25 Satisfaction of every stakeholder rests not only on the fact that the firm generates
26 enough value, but also on a balanced distribution of value among stakeholders (Charreaux
27 & Desbrières, 2001; Jensen, 2001), since resources expropriated by one stakeholder are not
28 available to serve the interests of the rest (Clarkson, 1995; John & Senbet, 1998). Because
29 of information asymmetries, these stakeholders use different informational cues or signals –
30 e.g., firm performance, size, or age – in order to generate their expectations about the firm’s
31 ability to satisfy their interests (Brammer & Millington, 2005; Brammer & Pavelin, 2006;
32 Fombrun & Shanley, 1990). Therefore, any characteristic of the firm that has been
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perceived as influencing future expropriation within the firm will serve as a signal that affects corporate reputation.

These signals that stakeholders use to build their expectations are influenced by the institutional context (Gardberg & Fombrun, 2006; Wright & Rwabizambuga, 2006). Thus one may suspect that the surge of concern raised by corporate scandals, the consequent interest in good governance as a determinant of firm behavior, and the more frequent presence and the relevance of large shareholders in civil law countries (Faccio & Lang, 2002; La Porta, Lopez de Silanes, & Shleifer, 1999; La Porta, López-de-Silanes, Shleifer, & Vishny, 1998; López de Foronda, López, & Santamaría, 2007) have favored considering ownership structure as one of the determinants of expectations about firms' future behavior. This ability of ownership structure to generate expectations makes it not only a corporate governance mechanism, but also a factor influencing the accumulation of one firm resource: corporate reputation.

Drawing on agency theory (Jensen & Meckling, 1976) and signaling theory (Spence, 1974), we provide theoretical arguments and empirically analyze the influence of firm ownership structure on corporate reputation in Spain. We focus on four characteristics of a firm's ownership structure that we consider the most visible to stakeholders: degree of ownership concentration in the hands of the largest and the second largest shareholders, insider ownership – i.e., ownership in the hands of executive and ex-executive directors – and the type of the largest shareholder. By distinguishing among different types of shareholders and by examining a civil law country, our analysis complements previous research by Fombrun and Shanley (1990), Brammer and Millington (2005), and Brammer and Pavelin (2006), which has focused only on the impact of institutional ownership in common law countries.

Spain is an interesting setting for our study for several reasons. First, Spain is a typical civil law country, with concentration of ownership in the hands of a few large blockholders who are influential in organizational behavior (Miguel et al., 2004; Tribó et al., 2007) and thus should have a large and distinctive influence on stakeholders' expectations. Second, in Spain banks have traditionally maintained a large presence in firms, not only as creditors but also as controlling shareholders (Ruiz-Mallorquí & Santana-Aguar, 2009). This large presence of banks, also common in other civil law countries, allows us to distinguish among different types of institutional investors in our analyses. Third, during the last decades the Comisión Nacional del Mercado de Valores (Spanish National Stock Exchange Commission) has introduced significant changes with the aim of promoting transparency among quoted firms (see the Olivencia Report, 1998; the Aldama Report, 2003; and the Code of Good Governance, also known as the Conthe Code, 2006). These advances have increased the information that quoted firms provide about their governance. Fourth, Spain has an index of corporate reputation comparable to other measurements analyzed in previous research. Finally, as Ruiz-Mallorquí and Santana-Aguar (2009) have indicated, these characteristics of firms' ownership structure in Spain and the weakness of its corporate control market imply that the conclusions drawn from our study can be extended to other civil law countries with similar governance characteristics.

The paper is structured as follows. In the next section we explain how ownership structure conditions expropriation in the firm and how stakeholders' perceptions of that structure build their expectations about the firm's capacity to meet their interests. Then, we develop hypotheses relating ownership structure to corporate reputation, in the sense that characteristics that generate expectations of a higher expropriation reduce corporate reputation, while those which limit expropriation enhance corporate reputation. Our third

section describes the sample, variables, and methods; our fourth reports the results. We conclude by discussing how our findings relate to those of others, the limitations of our study, and potential directions for future research.

**OWNERSHIP STRUCTURE, EXPECTATIONS OF EXPROPRIATION, AND
CORPORATE REPUTATION**

In recent decades, academic research has emphasized the consequences of a firm's ownership structure (e.g., Demsetz & Lehn, 1985; Fama & Jensen, 1983; Jensen & Meckling, 1976; Morck et al., 1988; Shleifer & Vishny, 1997). The ownership structure of a firm defines the combination of residual claims and decision control which has consequences on firm behavior (Fama and Jensen, 1983). These consequences of ownership structure are conditioned by the legal and institutional setting of the country in which the firm operates (La Porta et al., 1998; La Porta, López-de-Silanes, Shleifer, & Vishny, 2002). Firms in common law countries are characterized by a dispersed ownership structure so that the manager-shareholder relationship is the main source of conflicts. In civil law countries, as is the case in Spain, large shareholders are more common and can use their voting power to extract private benefits (expropriate). This expropriation may take a variety of forms, such as diversion of corporate opportunities from a firm by its controlling shareholders, transfer pricing favoring the controlling shareholder at non-market prices, loan guarantees using the firm's assets as collateral, and so on (La Porta et al., 2000). These behaviors by controlling shareholders expropriate minority shareholders (Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000) and the rest of the stakeholders in a firm (Clarkson, 1995; John & Senbet, 1998; Shleifer & Summers, 1989; Shleifer &

Vishny, 1997) because expropriated resources benefit controlling stakeholders at the expense of others (Clarkson, 1995; John & Senbet, 1998; Shleifer & Vishny, 1997).

If stakeholders perceive that ownership structure affects expropriation, they will take into account the ownership characteristics of a firm to generate their expectations about the firm's possibilities of satisfying their interests. That is, ownership structure will affect corporate reputation. Some research, although limited, has already shown that some characteristics of the ownership structures of firms are used as signals that influence corporate reputation. Fombrun and Shanley (1990) found that institutional ownership enhanced corporate reputation for firms listed in the *Fortune* survey of America's Most Admired Companies (AMAC).² Brammer and Millington (2005) and Brammer and Pavelin (2006) found that corporate reputation was positively associated with the extent of long-term institutional ownership for a sample of UK firms. But it seems reasonable to ask how this evidence applies in a civil law country, where not only institutional investors but also other types of large shareholders influence corporate behavior. Other characteristics of ownership structure, such as insider ownership or ownership concentration in the hands of the largest shareholder, may also influence corporate reputation. Additionally, since institutional investors are a heterogeneous group with different behaviors (e.g., Borokhovich et al., 2006; Brickley et al., 1988; Kochhar & David, 1996; Ruiz-Mallorqui & Santana-Martín, 2009), they should have differentiated effects on corporate reputation.

One essential characteristic of ownership structure that stakeholders can perceive is ownership concentration in the hands of the largest shareholder. Such ownership concentration can generate diverse expectations. For firms with dispersed equity ownership, stakeholders will anticipate low incentives for the shareholders to monitor managerial actions (Burkart, Gromb, & Panunzi, 1997; Fama & Jensen, 1983), and as a result, will

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3 expect expropriation by managers. This expropriation by managers can take a variety of
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5 forms, such as selling the firm's outputs or assets to another firm they own at below-market
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7 prices, just taking cash out of the company, or entrenching themselves in the job even if
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9 they are no longer competent to run the firm (La Porta et al., 2000; Shleifer & Vishny,
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11 1997). This expropriation leads to inferior outcomes that reduce the possibilities of
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13 satisfying stakeholder's interest. For example, if this expropriation happens, employees,
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15 customers, or suppliers will not see their interests of continued employment, service, or
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17 supply guaranteed. So, expectations of expropriation by managers will lead to expectations
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19 of lower chances that the firm will meet every stakeholder's interests. When shareholding is
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21 more concentrated, stakeholders may perceive that it is relatively easy for large owners to
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23 monitor managers, lessening their vulnerability to expropriation by managers (Gedajlovic
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25 & Shapiro, 1998; Shleifer & Vishny, 1986). But above certain levels of ownership
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27 concentration, stakeholders may perceive that controlling blockholders can also expropriate
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29 minority shareholders (La Porta et al., 1999) and the rest of the stakeholders (Shleifer &
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31 Vishny, 1997).

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34 Drawing on these arguments, we hypothesize a non-linear relationship between
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36 ownership concentration in the hands of the largest shareholder and corporate reputation; at
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38 low levels of ownership concentration, increases in ownership concentration favor
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40 monitoring to reduce expropriation by managers (Gedajlovic and Shapiro, 1998; Miguel et
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42 al., 2004). This favors expectations of fulfillment of stakeholders' interests that will
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44 consolidate corporate reputation. However, past a certain point of ownership concentration,
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46 increases in ownership concentration may give large shareholders the power to expropriate.
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48 This increases expectations that some stakeholders' interests may go unfulfilled and,
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50 therefore, will erode corporate reputation.
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Hypothesis 1: Ownership concentration in the hands of the largest shareholder is positively related to corporate reputation at low levels of ownership, and negatively related at high levels.

Substantial blockholding in the hands of a second large shareholder, which is frequent in Continental European countries, Spain among them (Crespi-Caldera & García-Cestona, 2001; Laeven & Levine, 2008), can also generate expectations among stakeholders. Stakeholders can perceive that a second large shareholder may not only avoid the agency problem caused by separation of ownership and control traditionally argued by Berle and Means (1932), Jensen and Meckling (1976), or Fama and Jensen (1983), but may also reduce the largest shareholder's ability to control the firm alone, which will reduce expropriation (Bennedsen & Wolfenzon, 2000; Bloch & Hege, 2001; Edwards & Weichenrieder, 2004; Gomes & Novaes, 2005; López de Foronda et al., 2007; Maury & Pajuste, 2005). The second largest shareholder cannot itself expropriate, because the possibilities of expropriation are controlled by the largest shareholder. Thus the second largest shareholder has incentives to monitor both managers and the largest shareholder. The incentives of monitoring should increase with ownership concentration of the second largest shareholder. Therefore, we expect that ownership concentration in the hands of a second large shareholder will favor stakeholders' expectations of low expropriation and of future fulfillment of their interests, thus consolidating corporate reputation.

Hypothesis 2a: Ownership concentration in the hands of a second largest shareholder is positively related to a firm's corporate reputation.

The contestability of the largest shareholder's power depends on the difference in holdings between the largest and second-largest blockholders (Laeven & Levine, 2008; Maury & Pajuste, 2005). Stakeholders will anticipate lower expropriation in corporations

with a low difference between the two largest blockholders, improving corporate reputation. Where the difference is high, stakeholders can expect the largest shareholder's power to be less contestable. This reduces stakeholders' expectations of having their interest fulfilled and impairs corporate reputation.

Hypothesis 2b: The lower the difference between the first and second largest blockholdings, the higher the corporate reputation.

Insider ownership – i.e., ownership in the hands of executive and ex-executive directors – can also generate diverse expectations. Stakeholders may perceive that insider ownership serves as an alignment of interests in the case of managers (Jensen & Meckling, 1976), which can generate expectations of lower expropriation and therefore enhance corporate reputation. However, high stock ownership on the part of insiders can also signal their entrenchment, which prevents supervision by other stakeholders and favors expropriation (Fernández, Gómez, & Fernández, 1998; McConnell, Servaes, & Lins, 2008; Miguel et al., 2004; Morck et al., 1988). If this effect is perceived by stakeholders, high levels of ownership concentration in the hands of insiders will erode corporate reputation. These theoretical arguments suggest a non-linear relationship between insider ownership and corporate reputation.

Hypothesis 3: Insider ownership is positively related to corporate reputation at low levels of ownership, and negatively related at high levels.

Another essential and visible characteristic for stakeholders is the nature of the largest shareholder. The distinction of the largest shareholder is relevant since the monitoring activities can vary with their experience and incentives (Demsetz & Lehn, 1985; Galve & Salas, 1993; Thomsen & Pedersen, 2000; Tribó et al., 2007). Thus, the nature of the largest shareholder conditions its role in value distribution (Dyer & Whetten,

2006; Graves, 1988; Thomsen & Pedersen, 2000), the expectations of stakeholders about future value distribution, and, therefore, corporate reputation. The findings of Fombrun and Shanley (1990), Brammer and Millington (2005), and Brammer and Pavelin (2006), described above, suggest that the presence of an institutional investor as the largest shareholder is a signal that can favor the building of corporate reputation. However, several researchers have stressed the importance of distinguishing the type of institutional investor (e.g., Bhattacharya & Graham, 2007; Borokhovich et al., 2006; Brickley et al., 1988; Cornett, Marcus, Saunders, & Tehranian, 2007; Kochhar & David, 1996; Ruiz-Mallorqui & Santana-Martín, 2009). In general, they distinguish between pressure-sensitive and pressure-resistant institutional investors. Pressure-sensitive institutional investors – e.g., banks – are institutional investors that are likely to have business relationships with firms in which they own an equity stake. Stakeholders can perceive that the double role of creditor and shareholder gives banks more information than other types of shareholders, making them more efficient monitors (Gorton & Schmid, 2000; Ingley & van der Walt, 2004; Lehmann & Weigand, 2000; Thomsen & Pedersen, 2000; Zoido, 1998). On the other hand, they may also expect that conflicts of interest with the rest of the stakeholders may also arise. In fact, one of the reasons for banks to be shareholders is the induced business relationships with the firms in which they invest (Ruiz-Mallorquí & Santana-Aguiar, 2009). Furthermore, banks can use their superior information and control in their own interest – for instance, by charging above-market interest, capturing all the firm's banking activities, or discouraging risky strategies (Morck, Nakamura, & Shivdasani, 2000; Shleifer & Vishny, 1997; Zoido, 1998). In contrast, pressure-resistant institutional investors – e.g., investment and pension funds – have no potential business links with the firms in which they invest, and they bear the cost associated with declines in value creation (Bhattacharya

& Graham, 2007; Borokhovich et al., 2006; Brickley et al., 1988). Thus stakeholders should perceive them only as efficient monitors.³

Other types of largest shareholder can also generate expectations. Stakeholders may perceive that a largest shareholder who is an individual or a family will likely be a founder or a founder's family successor and will therefore have an emotional involvement in the firm (Galve & Salas, 2003). Such personal involvement may generate positive expectations, since the family shareholder will be more strongly interested in controlling expropriation than other types of shareholders for which the firm is only a piece in their portfolios (Anderson & Reeb, 2003; Lehmann & Weigand, 2000; McConaughy, Mathews, & Fialko, 2001). However, family members have special ties and may ignore the interests of non-family stakeholders (Barontini & Caprio, 2006; Jara-Bertín, López-Iturriaga, & López-de-Foronda, 2008), who can perceive that family members can tailor value distribution to the objectives of the family (Gómez-Mejia, Núñez Nickel, & Gutiérrez, 2001; Morck & Yeung, 2004; Shleifer & Summers, 1989). Thus, we expect a negative relationship between individual or family ownership and corporate reputation.

Hypothesis 4a: Pressure-sensitive institutional investors are negatively related to corporate reputation.

Hypothesis 4b: Pressure-resistant institutional investors are positively related to corporate reputation.

Hypothesis 4c: Individual or family ownership is negatively related to corporate reputation.

SAMPLE AND METHODOLOGY

Sample

The hypotheses were tested on firms included in the MERCO – Monitor Español de Reputación COorporativa (Spanish Monitor of Corporate Reputation) – ranking of the 100 top reputed firms in Spain for 2000–2007. The ranking is explained below. This index provides data for eight years, so we were able to use a panel data analysis and thus avoid the problems of unobservable heterogeneity in empirical analyses, and also compare our findings to those obtained by previous researchers. The initial sample comprised those firms included in the MERCO ranking for each of the years considered. From the initial sample we excluded firms for which information on ownership structure or board characteristics was not available. The final sample consists of a panel comprising 59 firms for an eight-year period. The panel is unbalanced since not all firms are included in the MERCO ranking for the full eight-year period (see table 1). The total number of observations is 361.

INSERT TABLE 1 ABOUT HERE

Methodology

Since the dependent variable analyzed –corporate reputation- may present inertia in time –i.e., present values of corporate reputation may be conditioned by previous values-, we used a dynamic panel data analysis. The estimation approach used is Arellano and Bover’s (1995) and Blundell and Bond’s (1998) “System GMM (Generalized Method of Moments).” The system GMM estimator has a number of advantages. On the one hand, it controls for the possible problems of endogeneity of explanatory variables and, on the

other, it avoids non-observable constant heterogeneity arising out of the specific features of each firm that remain over time. Additionally, this estimation approach allows the introduction of more instruments than other GMM estimators, which improves efficiency. The validity of GMM estimates depends on the absence of second-order serial autocorrelation in the residuals and on the validity of the instruments analyzed – note that first-order serial correlations are significant by way of construction. For this reason, Table 3 reports a second-order serial correlation test and a Hansen test for overidentifying restrictions that checks the validity of the selected instruments. These conditions are met in all of our analyses. Finally, to avoid overfitting biases and weak Hansen tests derived from the use of numerous instruments, we reduced the lags available for instruments and we collapsed the instruments (Roodman, 2009).

Variables

Corporate Reputation. Corporate reputation information was obtained from the MERCO ranking. This index provides a score for the 100 best reputed companies in Spain and has been employed in previous research (Fernández & Luna, 2007). It is similar to *Fortune’s* AMAC, which is the measure most commonly used in academic journals (e.g., Black, Carnes, & Richardson, 2000; Brown, 1997; Chung, Schneeweis, & Eneroth, 2003; Cordeiro & Sambharya, 1997; Fombrum & Shanley, 1990; Hammond & Slocum, 1996; Riari-Belkaoui & Pavlik, 1991; Roberts & Dowling, 1997, 2002; Sobol & Farrelly, 1988; Srivastava, McInish, Wood & Capraro, 1997; Vergin & Qoronfleh, 1998).⁴ The survey evaluates companies on six dimensions (economic performance, product quality, culture and workplace quality, ethics and corporate social responsibility, international and global presence, and innovation), each of which is disaggregated into three items. The items considered are shown in the Appendix. The ranking is built in two stages.⁵ First, the survey

asks for the perceptions of major Spanish managers. In 2008, the survey was mailed to 12,800 Spanish top managers of the 3,000 firms with revenue higher than 50 million euros. The final 2008 sample comprised 1,215 questionnaire responses. This stage provisionally proposes the 100 most reputable Spanish firms. Second, each of these firms is evaluated by several raters: financial analysts, NGOs, managers, unions, and consumer associations. These ratings are verified through research into the firms' own reports and through a "merit questionnaire" created by MERCO analysts. Finally, the definitive ranking is drawn up and released.

In order to influence corporate reputation, information on ownership structure has to be perceived and interpreted by the firm's different audiences, who then form expectations about expropriation. Therefore, we analyzed the effect of ownership structure on corporate reputation as measured after the publication of information on the firms' ownership structure. We used the latest publicly available information on ownership structure for each of the years analyzed, because we assume that stakeholders will base their expectations on the most up-to-date available information.

Ownership Structure. The main sources of information for the independent variables were the databases from the CNMV (Spanish Stock Exchange Commission), the DICODE database for the top 50,000 Spanish companies, Who's Who in Spain, Thomson ONE Banker, and firms' financial statements. More specifically, we used data from the database of "Significant shares for all quoted companies," and corporate governance reports for the period 2000–2007, and firms' financial statements, DICODE, and Who's Who in Spain databases for the period 1995–2007.

Ownership concentration was measured by the percentages of shares controlled by the largest and second largest shareholders. In our calculations we considered direct as well

as indirect ownership, but not full pyramidal ownership, since only direct and indirect ownership are easy for stakeholders to obtain and perceive. Additionally, when several members of a family had stockholdings, we considered them as a single shareholder since we believe stakeholders will perceive that family members share interests. To account for the contestability of the largest shareholder's power, we used a third variable measuring the relative comparison of the first and second largest shareholdings. This was calculated as the difference between the first and second largest shareholdings divided by the largest shareholding. We used this relative comparison instead of the absolute difference between the first and second largest shareholder because the capability of the second shareholder to control the main one depends not only on the difference, but also on the level of ownership of each shareholder. For instance, the power of the second shareholder is not the same when the main shareholder holds a 24% stake and the second 20% as it is when the first holds 5% and the second 1%. Insider ownership was proxied by the percentage of stock controlled by executive and ex-executive directors.⁶ In order to test for non-linear effects in the relationships analyzed, we used the square for ownership concentration of the largest shareholder and the square for insider ownership (McConnell & Servaes, 1990; Miguel et al., 2004). Finally, in order to capture the type of the largest shareholder we used four dummy variables, which identify the largest shareholder as a family or individual, a pressure-sensitive institutional investor (financial institutions), a pressure-resistant institutional investor (investment and pension funds), or “other.” Our typology is similar to those employed by previous researchers (Galve & Salas, 1993; Lehmann & Weigand, 2000; Thomsen & Pedersen, 2000; Tribó et al., 2007). In calculating all the variables we considered voting shares; non-voting shares are very rare in Spanish quoted firms, so using all types of shares should not change the results of our analyses.

Control Variables. Since other corporate governance mechanisms such as the board of directors can also affect stakeholders' expectations (Brammer, Millington, & Pavelin, 2009), we included as control variables three characteristics of the board of directors that can be perceived by stakeholders: board size, measured as the natural log of the number of directors; composition, measured as the proportion of independent directors and proportion of insider directors; and CEO duality. Research considering the influence of board size on its effectiveness has developed contradictory arguments. On the one hand, researchers argue that larger boards have more knowledge and skills at their disposal (Forbes & Milliken, 1999; Pearce & Zahra, 1992), have greater ability to monitor (Goodstein, Gautam, & Boeker, 1994), and enable the firm to form larger environmental linkages and secure scarce resources (Dalton, Daily, Johnson, & Ellstrand, 1999; Pfeffer, 1972; Pfeffer & Salancik, 1978). On the other hand, researchers have also argued that oversized boards have problems of poorer communication and decision-making, and are easier for the CEO to control (Jensen, 1993; Lipton & Lorsch, 1992; Yermack, 1996). Stakeholders may perceive both effects, so the sign of the relationship between board size and corporate reputation is an open question. Board composition, and especially the presence of independent directors, has also been considered a relevant determinant of effectiveness. A greater proportion of independent directors should generate a perception of more effective control of managerial actions and an orientation towards the fulfillment of every stakeholder's interest, which should favor corporate reputation (Baysinger & Butler, 1985; Dalton, Daily, Ellstrand, & Johnson, 1998; Freeman, 1984; Johnson & Greening, 1999; Pfeffer & Salancik, 1978; Zahra, 1989). In contrast, insider directors, being managers and directors at the same time, should be less able to monitor (Dalton et al., 1998; Hermalin & Weisbach, 1991) and less oriented towards other stakeholders, which should negatively

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3 affect corporate reputation.⁷ Finally, although empirical evidence has not been conclusive
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5 (see meta-analysis and review by Dalton et al., 1998 and Kang & Zardkoohi, 2005), agency
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7 theorists have traditionally argued that CEO duality should produce CEO entrenchment by
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9 reducing board monitoring effectiveness (Dalton et al., 1998; Finkelstein & D'Aveni, 1994;
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11 Lorsch & MacIver, 1989). Expectations of CEO entrenchment should negatively affect
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13 corporate reputation. The information regarding these board characteristics was obtained
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15 from the Spencer Stuart Board Index published by Spencer Stuart Consulting, firms'
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17 corporate governance reports, and firms' financial statements.
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22 Three additional variables were used as controls, since they have frequently been
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24 related to corporate reputation in empirical research: firm size, age, and return on equity.
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26 We also controlled for industry and year. Firm size was measured by the log of total assets.
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28 There is ample empirical evidence that larger firms have better corporate reputations
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30 (Cordeiro & Sambharya, 1997; Deephouse, 1997; Dunbar & Schwalbach, 2000; Fombrun
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32 & Shanley, 1990; Riahi-Belkaoui & Pavlik, 1991; Roberts & Dowling, 1997; Sobol &
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34 Farrelly, 1988). Large firms, being more visible in markets, are expected to be more closely
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36 examined by the different audiences and, therefore, to exhibit low expropriation that favors
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38 the building of corporate reputation. Smaller companies, which may even go unnoticed in
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40 the market, are expected to be less controlled and therefore less careful in the distribution of
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42 firm value, reducing corporate reputation.
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48 Although the empirical literature shows ambiguous findings about the influence of
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50 firm age on corporate reputation (Rao, 1994; Schultz, Mouritsen, & Gabrielsen, 2001), we
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52 have introduced firm age because corporate reputation accumulates slowly (Fombrun,
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54 1996; Schultz et al., 2001). Companies that have remained in business through long periods
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56 of market supervision can be expected to have maintained their stakeholders' satisfaction,
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so that stakeholders extrapolate⁸ from previous behaviors to generate expectations of future behavior (Weizsacker, 1980, cited by Williamson, 1985).

Our third variable is Return on Equity (ROE). Previous research has frequently analyzed the influence of returns on corporate reputation (Dunbar & Schwalbach, 2000; Inglis, Morley, & Sammut, 2006; McGuire, Schneeweis, & Branch, 1990; Rose & Thomsen, 2004). The possibilities of satisfying future demands of stakeholders are higher when the value created by the firm is higher and when expropriation is lower. Stakeholders will use previous firm performance to estimate future performance, and a higher expected value creation will lead them to expect satisfaction of their interests and thus will build corporate reputation.

Finally, we also controlled for industry and year by introducing temporal and industry dummies. To calculate industry dummies we used the CNAE (Spanish Code of Business Activities), which largely corresponds with standard SIC codes.

Sample selection bias

As indicated above due to the MERCO coverage of the 100 most reputable firms in Spain, there is a drop of observations in our sample. Therefore, we tested and corrected for sample selection bias following the procedure indicated by Semykina and Wooldridge (2007, 2010) and El Lahga and Moreau (2007). This procedure is similar to that proposed by Heckman (1979). It consists in obtaining a probit estimation for each time period in which the dependent is a dummy variable gauging whether or not the firm is included in the MERCO index of the top reputed companies. The explanatory variables were ownership concentration in the hands of the main shareholder and second shareholder, insider ownership, the percentage of independent directors, firm size, age, and ROE. Due to methodological requirements, leverage and the percentage of directors who are shareholder

representatives were also added as exclusion restriction variables: variables that are included in the probit estimations but not in the GMM models analyzed. These estimates are used to compute the inverse Mill's ratios for each probit regression. For the selected sample we then estimated each equation augmented by the inverse Mills ratios calculated for each time period. A test of selection bias is the t-test of the significance of the coefficient for the inverse Mills ratios. T-tests for the inverse Mill's ratio showed significant coefficients for only 6 of the 15 models considered in our study. Additionally, the coefficients and significance levels of our hypothesized variables in the analyses remained almost identical after we included the inverse Mill's ratio, indicating that sample selection bias is not a concern in our study. We report results only for the models that test and correct for sample selection. Results for the uncorrected models and for probit models can be obtained from the authors.

The following model is used to test the effect of ownership structure on corporate reputation:

$$\begin{aligned} \text{Corporate Reputation}_{it} = & \alpha + \beta_1(\text{corporate reputation}_{it-1}) \\ & + \beta_2(\text{ownership concentration largest shareholder}_{it}) \\ & + \beta_3(\text{ownership concentration largest shareholder squared}_{it}) \\ & + \beta_4(\text{ownership concentration second largest shareholder}_{it}) \\ & + \beta_5(\text{relative difference in ownership concentration between first and second largest shareholders}_{it}) \\ & + \beta_6(\text{insider ownership}_{it}) \\ & + \beta_7(\text{insider ownership squared}_{it}) \\ & + \beta_8(\text{family or individual}_{it}) \\ & + \beta_9(\text{pressure-sensitive institutional investor}_{it}) \\ & + \beta_{10}(\text{pressure-resistant institutional investor}_{it}) \\ & + \beta_{11}(\text{other}_{it}) \\ & + \beta_{12}(\text{board size}_{it}) \\ & + \beta_{13}(\text{percentage of independent directors}_{it}) \\ & + \beta_{14}(\text{percentage of inside directors}_{it}) \\ & + \beta_{15}(\text{CEO duality}_{it}) \\ & + \beta_{16}(\text{size}_{it}) \\ & + \beta_{17}(\text{age}_{it}) \end{aligned}$$

$$\begin{aligned}
 &+ \beta_{18}(\text{ROE}_{it}) \\
 &+ \beta_{19}(\text{inverse Mills Ratio}_{it}) \\
 &+ d_t + d_i + \varepsilon_{it}
 \end{aligned}$$

where i equals each individual, t equals time, and ε_{it} is the random error for each observation.

RESULTS

Table 2 provides the descriptive statistics and pairwise correlations for all independent and dependent variables. These descriptive statistics for our sample show characteristics of a typical civil law country with high levels of ownership concentration in the hands of the largest shareholder (average = 24.3 percent). Ownership in the hands of the second largest shareholder is on average also high, but represents only a third of the average ownership by the largest shareholder (average = 7.6 percent). The descriptive statistics also show similar proportions of the different types of largest shareholder: family or individual, pressure-sensitive institutional, and pressure-resistant institutional investors.

INSERT TABLE 2 ABOUT HERE

The results of panel data analyses are shown in Table 3. Models 1 to 7 show partial estimations. Models 1 and 2 test the linear and quadratic relationships related to ownership concentration for the largest shareholder. Models 3 and 4 analyze the role of the second largest shareholder, and this second largest shareholder's power to contest the first one, respectively. Models 5 and 6 test the linear and quadratic relationships between insider ownership and corporate reputation, and model 7 tests the influence of the type of the largest shareholder. Full panel data analyses, in which we consider linear and non-linear relationships, are provided in models 8 to 15. Since the contestability variable was

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calculated by the difference in ownership concentration between the main and second largest shareholders relative to the largest shareholding – i.e., a linear combination of both variables – we had to analyze this variable in separate models (12 to 15). Results for models in which each independent variable is analyzed individually and for full models are almost the same; therefore, we discuss them together.

Results for models 1, 8, and 10, which consider linear relationships, show a negative and significant coefficient for the first-owner concentration variable ($t = -1.76, p < 0.10$; $t = -3.08, p < 0.01$; and $t = -3.76, p < 0.001$, respectively). Models 2, 9, and 11 test a non-linear relationship. The results show a negative and significant coefficient for the squared version of this variable only in model 2 ($t = -2.30, p < 0.05$). These results do not support hypothesis 1, which indicates a quadratic relationship. They show instead a negative and linear relationship, which suggests that ownership concentration in the hands of the main shareholder harms corporate reputation.

INSERT TABLE 3 ABOUT HERE

The results show a non-significant relationship between second-owner concentration and corporate reputation in all the models (3, 8, 9, 10, and 11). However, they also show a negative and significant coefficient for the contestability variable ($t = -2.53, p < 0.05$; $t = -2.10, p < 0.05$; $t = -3.29, p < 0.01$; and $t = -2.00, p < 0.05$ in models 12 to 15, respectively). These findings support hypothesis 2b: the lower the difference between the first and second largest blockholdings, the greater the corporate reputation.

Models 5, 8, 10, 12, and 14 test a linear relationship between insider ownership and corporate reputation. Results show negative and significant coefficients for insider

ownership in all of the models except model 5 ($t = -2.93$, $p < 0.01$; $t = -2.35$, $p < 0.05$; $t = -5.01$, $p < 0.001$; and $t = -6.15$, $p < 0.001$, for models 8, 10, 12, and 14, respectively). Models 6, 9, 11, 13, and 15 test a non-linear relationship between insider ownership and corporate reputation. The results show positive and significant coefficients for ownership concentration in the hands of insiders ($t = 2.79$, $p < 0.01$; $t = 3.07$, $p < 0.01$; $t = 1.74$, $p < 0.10$; $t = 2.72$, $p < 0.01$; and $t = 2.61$, $p < 0.05$, for models 6, 9, 11, 13, and 15 respectively) and negative and significant coefficients for the squared variable ($t = -2.92$, $p < 0.01$; $t = -3.20$, $p < 0.01$; $t = -1.92$, $p < 0.10$; $t = -3.02$, $p < 0.01$; and $t = -2.86$, $p < 0.01$ for models 6, 9, 11, 13, and 15 respectively). These results support hypothesis 3, which suggests a non-linear relationship between insider ownership and corporate reputation; insider ownership is positively related to corporate reputation at low levels of ownership and negatively related at high levels.

Finally, models 7, 10, 11, 14, and 15 show the relationship between the type of the largest shareholder and corporate reputation. For these analyses we used dummy variables, so we had to exclude one type of shareholder to avoid a problem of multicollinearity. We excluded “other” firms, which became the comparison group. The results show negative and significant coefficients for pressure-resistant institutional owners ($t = -3.39$, $p < 0.001$; $t = -2.76$, $p < 0.01$; $t = -2.09$, $p < 0.05$; $t = -1.90$, $p < 0.10$; and $t = -4.43$, $p < 0.001$) in all analyses (models 7, 10, 11, 14, and 15 respectively), and a negative and significant coefficient for pressure-sensitive owners ($t = -2.63$, $p < 0.05$; $t = -2.12$, $p < 0.05$; $t = -2.20$, $p < 0.05$, and $t = -2.12$, $p < 0.05$) in models 7, 10, 11, and 15 respectively. Family or individual ownership shows a positive and significant coefficient only in model 14 ($t = 1.85$, $p < 0.10$). These results show that, compared to the comparison group, both pressure-resistant and pressure-

sensitive institutional investors impair corporate reputation, whereas family or individual ownership does not seem to affect corporate reputation.

DISCUSSION AND CONCLUSIONS

Our research has analyzed the influence of ownership structure on a firm's reputation. Our results, for a sample of the most reputable firms in Spain, show that stakeholders consider characteristics of ownership structure when generating the expectations of future expropriation that lead to corporate reputation. Specifically, our results support the idea that high levels of ownership concentration in the hands of the largest shareholder erode corporate reputation. The lack of significance of the non-linear relationship between ownership concentration by the largest shareholder and corporate reputation may be due to the high levels of ownership concentration in Spanish firms. These high levels of ownership concentration may not allow stakeholders to perceive any positive influences that might arise for lower levels of ownership. Our results also show a significant relationship between the contestability of the largest shareholder's power and corporate reputation: the lower the difference between the first and second largest blockholdings, the larger the perception of monitoring, which generates expectations of lower expropriation and finally fosters corporate reputation. Additionally, corporate reputation is positively related to insider ownership at low levels of ownership, and negatively related at high levels. Our analyses show that the presence of *either* pressure-resistant or pressure-sensitive institutional investors erodes corporate reputation. This finding is not consistent with research by Fombrun and Shanley (1990), Brammer and Pavelin (2006), and Brammer, Brooks, and Pavelin (2004), which has shown a positive effect of institutional ownership on corporate reputation; nor is it consistent with arguments that pressure-sensitive and pressure-resistant institutional investors behave differently (e.g.,

Brickley et al., 1988; Kochhar & David, 1996). Our result suggests that stakeholders in Spain, rather than perceiving institutional investors as active monitors of firm behavior, perceive them as traders concerned with short-term investment horizons (Bushee, 2001; Graves and Waddock, 1990; Lavery, 1996). In Spain, institutional investors usually maintain less stable investments than other types of largest shareholders, and thus may be perceived as focusing on short-term performance at the expense of long-run value. This perception implies an expectation of expropriation of rents that erodes corporate reputation. Finally, family or individual ownership does not show a significant influence on corporate reputation. This finding suggests that the possible benefits of family ownership may counterbalance the negative effects, so that stakeholders do not have clear expectations concerning this type of shareholder.

Our findings suggest that stakeholders have more complex perceptions about ownership concentration of insiders than about ownership concentration of the largest blockholder. This result may seem especially surprising considering that firms in a typical civil law country like Spain traditionally have large shareholders. These perceptions may exist because corporate governance codes and the media, even in civil law countries, have traditionally placed more emphasis on managerial opportunism than on controlling shareholders' expropriation. This implication of our results suggests that stakeholders' expectations are influenced by the environmental context – e.g., the media and legal regulation.

Our findings with regard to control variables suggest that independent directors, board size, and CEO duality are related to corporate reputation. Our findings are consistent with arguments that board independence improves corporate governance (CNMV, 2006; OECD, 2004; Randoy & Jenssen, 2004) and suggest that those boards with a greater

proportion of independent directors signal more effective control that discourages managerial or majority owner's expropriation, and an orientation towards fulfillment of every stakeholders' interest, which will favor corporate reputation (Baysinger & Butler, 1985; Freeman, 1984; Hermalin & Weisbach, 1991; Johnson & Greening, 1999; Zahra, 1989). Our finding is also consistent with arguments by Pfeffer & Salancik (1978) that outside directors may enhance the reputation and credibility of an organization and contribute to its legitimacy. The positive and significant influence of board size on corporate reputation also suggests that stakeholders perceive larger boards to have more knowledge and skills at their disposal (Forbes & Milliken, 1999; Pearce & Zahra, 1992), to favor supervision of managerial actions (Goodstein et al., 1994) or to provide the firm with larger environmental linkages and secure scarce resources (Dalton et al., 1999; Goodstein et al., 1994; Pfeffer, 1972; Pfeffer & Salancik, 1978). These effects foster expectation of firms' value creation and at the same time of reduced expropriation, finally leading to building corporate reputation. Finally, our findings also show that CEO duality is negatively related to corporate reputation. This finding is consistent with previous arguments that CEO duality should produce CEO entrenchment by reducing board monitoring effectiveness (Dalton et al., 1998; Finkelstein & D'Aveni, 1994; Lorsch & MacIver, 1989). Expectations of CEO entrenchment negatively affect corporate reputation.

In sum, our paper makes three major contributions. First, we provide evidence of the impact of ownership structure on an outcome variable – corporate reputation – that has scarcely been analyzed before. Researchers have focused mainly on the role of ownership structure as a mechanism of corporate governance (e.g., Demsetz & Lehn, 1985; Gedajlovic & Shapiro, 1998; Miguel, et al., 2004; Morck et al., 1988), but our findings show that the characteristics of ownership structure are also signals, which will translate into

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3 stakeholders' responses towards the firm. Second, we also contribute to the limited research
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5 on the factors that favor corporate reputation. Previous research analyzing the influence of
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7 ownership structure on corporate reputation has focused only on common law countries.
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9 The "law and finance" approach has stressed differences both in levels of ownership
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11 concentration and in quality of law enforcement and accounting standards which lead to
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13 differences in the effects of ownership structures between civil law countries and common
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15 law countries (Gedajlovic & Shapiro, 1998; La Porta et al., 2002; López de Foronda et al.,
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17 2007). Specifically, in contrast to civil law countries, common law ones tend to protect
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19 investors better, which leads to more concentrated ownership in the case of civil law
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21 countries. However, as a consequence, controlling shareholders have the power to
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23 expropriate (La Porta et al., 2002), which is also favored by this lower protection. This
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25 difference in levels and effects of ownership concentration may also have different effects
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27 on stakeholders' perceptions and expectations. Lastly, our paper complements previous
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29 research analyzing how pressure-resistant vs. pressure-sensitive institutional investors have
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31 different influences in the firm (e.g., Borokhovich et al., 2006; Brickley et al., 1988;
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33 Kochhar & David, 1996). Our paper suggests that stakeholders in Spain have similar
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35 perceptions of pressure-resistant and pressure-sensitive institutional investors.
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43 One limitation of our study involves the structure of the sample. The MERCO
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45 index, like other indexes of corporate reputation, publishes scores only for the best reputed
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47 firms. Therefore our analyses refer to the influence of visible characteristics of ownership
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49 structure on differences among the most reputable firms, but not between reputed and non-
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51 reputed ones. This analysis should be an interesting future line of research. Additionally, in
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53 our research we employed the latest publicly available information on ownership structure
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55 for each of the years analyzed, on the assumption that stakeholders will use the most up-to-
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date information available, and since large blockholdings are relatively stable over time, our assumption should not seriously bias our findings. Third, our measure of insider ownership considers only the percentage of stock controlled by executive and ex-executive directors. A more complete definition of insider ownership would consider stock controlled by all executives, but this information was not publicly available. Nevertheless, we believe our definition does include those executives with the largest shareholdings, and thus the most influential ones when forming expectations about a firm's future behavior. Fourth, in the analyses presented in the paper we have not considered the role of large shareholders' representatives on the board of directors, because of problems of collinearity. We performed additional analyses replacing the proportion of independent directors with the proportion of large shareholders' representatives on the board, and results for these analyses reinforce our conclusions: the proportion of large shareholders' representatives showed a negative relationship with corporate reputation. Results of these analyses can be obtained from the authors. Finally, our research focuses on a single civil law country, Spain; new analyses on other civil law countries should be an interesting future line of research.

Nevertheless, the study has a number of implications. Our chief conclusion, that corporate ownership structures influence corporate reputation, suggests that the well-documented influence of ownership structure on financial performance results not only directly from expropriation. Previous research has found that corporate reputation improves financial performance (e.g., Black et al., 2000; Roberts & Dowling, 2002). If we link this evidence to our results, we can consider that part of the widely analyzed relationship between ownership structure and firm performance may be due to the effect of ownership structure on corporate reputation. In this sense, we can state that ownership structure is not

only a corporate governance mechanism that conditions actual expropriation, but also a signal that generates expectations about expropriation – expectations that favor or erode corporate reputation.

Furthermore, we think that ownership structure can also affect the accumulation of other capabilities and resources – e.g., culture, knowledge, or innovation – in which stakeholders' attitudes, such as perception or effort, matter. Stakeholders take into account their expectations about value distribution and behave in a way that favors their best interests (Aguilera, Williams, Conley, & Rupp, 2006; Cropanzano, Rupp, Mohler, & Schminke, 2001). A change in the perceived characteristics of ownership structure (i.e., a change in the largest shareholder or an increase or decrease in the stock ownership of the largest shareholder or of insiders) may signal a different future distribution of value, changing the behavior of stakeholders, who seek to optimize their assignment in value distribution. These new behaviors will change the existing resource structure. Examining the influence of ownership structure on other resources would be a promising extension of our research. It would also be of interest to analyze the relationship between ownership structure and corporate reputation in other countries. Theoretical and empirical research on ownership structure has highlighted that differing institutional contexts affect the ownership structures of firms (e.g., La Porta et al., 1998, 1999); these contexts might produce relationships different from those shown in our research. In particular, the “law and finance” approach (La Porta et al., 1998, 1999) suggests that new studies in a common law country might point to different effects of ownership structure on corporate reputation. Finally, corporate reputation is commonly defined by the aggregate expectations of every group of stakeholders; but it would be interesting to disaggregate how each group of

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stakeholders perceives ownership structure in order to generate expectations that lead to corporate reputation.

For practitioners, our findings suggest how managers and directors in civil law countries should communicate and manage ownership structure and board of director’s characteristics to consolidate corporate reputation. On the one hand, corporate communications should emphasize any existing characteristics of ownership structure and of the board of directors that favor reputation, such as low levels of ownership concentration in the hands of the largest shareholder and low differences in ownership concentration between the first and second largest shareholders. On the other hand, directors and even large shareholders should try to change those characteristics of the board of directors that may generate negative perceptions – for instance, the nominations committee of the board of directors might suggest an increase in board size or in the number of independent directors, or the avoidance of CEO duality. When characteristics are difficult, even impossible, to change – e.g., high levels of ownership concentration in the hands of the largest shareholder, or high or low levels of insider ownership concentration – managers and directors should introduce compensatory mechanisms such as codes of conduct and communicate these mechanisms to stakeholders. Finally, our findings are also of interest for regulators, who should consider our findings that independent directors improve corporate reputation, and that directors who represent large shareholders impair it.

NOTES

[1] According to La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998, 2000), the commercial legal systems of most countries derive from a few legal families including the English (common law) system and the French, Spanish, and German ones (civil law systems, all derived from Roman law). These different legal systems generate significant differences among countries in the quality of law enforcement and accounting standards. Common law countries seem to protect investors better than civil law ones; as a result, there are also large differences among countries in ownership concentration in publicly traded firms and in the access of these firms to external finance. Firms in civil law countries with lower investor protection may need more concentrated ownership in order to avoid managerial expropriation. However, as a consequence these controlling shareholders have an active role in organizational behavior and the power to expropriate (La Porta et al., 2002).

[2] Since 1983, *Fortune's* AMAC has annually surveyed CEOs' and analysts' views of the 10-15 largest companies on a 64 industry list. Respondents are asked to rate a competitor's reputation on a 10-point scale (0=poor and 10=excellent) in terms of eight key attributes of reputation: (1) Financial soundness; (2) Long-term investment value; (3) Use of corporate assets; (4) Innovativeness; (5) Quality of the company's management; (6) Quality of its products and services; (7) Ability to attract, develop and keep talented people; and (8) Acknowledgement of social responsibility (Chun, 2005).

[3] Scholars including Brickley and colleagues (1988) and Borokovich and colleagues (2006) have shown that the type of institutional investors influences the tendency to support managerial decisions, but their arguments rest on the conflict of interest between managers and shareholders traditional in common law countries. We agree with Ruiz-Mallorquí and Santana-Aguiar (2009) that these arguments cannot be completely applied to civil law countries in which the main conflict of interest rests in the power of the largest shareholder to expropriate.

[4] Similar surveys have been developed in various countries. "Asia's Most Admired Companies," published by *Far East Economic Review*; "Britain's Most Admired Companies," published by

Management Today; “Most Respected Companies,” published by *Financial Times*; *Manager Magazine*’s survey of Germany’s largest manufacturing and service firms and *Børsens Nyhedsmagasin*’s ranking for Denmark have also been used in academic research (Brammer & Millington, 2005; Brammer & Pavelin, 2006; Dunbar & Schwalbach, 2000; Schultz et al., 2001).

[5] A thorough description of the MERCO methodology can be seen at its website: <http://www.english.merco.info/show/mercoempresas/2004>.

[6] Spanish quoted companies are requested to disclose the number of shares held by directors. However, executives who are not members of the board are subject only to ordinary disclosure, i.e., if they hold 5% or more of the shares. This legal requirement meant that we had to define insider ownership as ownership by executive and ex-executive directors. Although our measure does not capture the full ownership of executives, it does capture the stock ownership of the most influential insiders, and thus of the ones most important to the formation of expectations about a firm’s future behavior.

[7] In the case of a civil law country like Spain, the presence of large shareholders’ representatives on the board may also negatively affect corporate reputation. However, owing to problems of collinearity we could not include this variable in our analyses. We performed additional analyses replacing the proportion of independent directors with the proportion of large shareholders’ representatives on the board, and results for these analyses reinforce our conclusions: the proportion of large shareholders’ representatives showed a negative relationship with corporate reputation. Results of these analyses can be obtained from the authors.

[8] Weizsacker (1980:72-73; cited by Williamson, 1985) explains that “people extrapolate the behaviour of others from past observations and this extrapolation is self-stabilizing, because it provides incentives for others to live up to these expectations [...]. By observing others’ behaviour in the past, one can fairly confidently predict their behaviour in the future without incurring further cost.”

TABLE 1

Structure of the Sample

Number of annual observations per company	Number of companies	Number of observations
4	16	64
5	10	50
6	4	24
7	9	63
8	20	160
Total	59	361

TABLE 2

Descriptive Statistics and Correlation Matrix

	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Ownership concentration first shareholder	24.34	23.71															
2 Ownership concentration second shareholder	7.57	7.46	-0.31***														
3 Difference between first and second largest shareholders	0.47	0.34	0.65***	-0.06													
4 Insider ownership	8.51	18.70	0.02	0.01	0.06												
5 Family or individual	0.28	0.45	0.18***	0.09	0.26***	0.03											
6 Pressure-sensitive institutional investor	0.24	0.43	-0.06	-0.07	-0.00	0.06	-0.35***										
7 Pressure-resistant institutional investor	0.23	0.42	-0.27***	0.13*	-0.20***	-0.04	-0.34***	-0.31***									
8 Other	0.23	0.42	0.18***	-0.21***	-0.06	-0.15**	-0.34***	-0.31***	-0.30***								
9 Independent directors	0.48	0.25	-0.45***	0.51***	-0.15**	-0.05	-0.13*	-0.06	0.37***	-0.20***							
10 Insider directors	0.18	0.10	0.24***	-0.11*	0.24***	0.09†	0.23***	0.01	-0.04	-0.27*	-0.24***						
11 Duality	0.72	0.45	0.07	-0.23***	0.04	0.07	0.13**	0.05	-0.09†	-0.02	-0.09†	0.29***					
12 Board size	2.63	0.28	0.03	0.03	-0.07	0.05	-0.16**	0.22***	-0.12*	0.06	-0.20***	-0.05	-0.19***				
13 Size	16.37	1.93	-0.42***	0.56***	-0.25***	0.02	-0.26***	0.04	0.20***	-0.01	0.59***	-0.14**	-0.16**	0.15**			
14 Age	78.32	48.18	-0.25***	0.50***	-0.08	0.03	-0.19***	0.04	0.10†	0.12*	0.31***	-0.32***	-0.05	0.23***	0.48***		
15 ROE	0.11	0.18	0.03	-0.04	-0.01	-0.03	0.03	-0.04	0.16**	-0.12*	0.06	0.12*	0.05	-0.11*	-0.14**	-0.18***	
16 Corporate reputation	8.03	0.50	-0.10†	-0.07	0.03	0.07	-0.07	0.22***	-0.08	-0.09	0.06	0.12*	0.11*	0.13*	0.20***	-0.08	0.00

†p<0.10; *p<0.05; **p<0.01; ***p<0.001
N= 361 observations.

TABLE 3
Results of Dynamic Panel Data Analyses of the Influence of Ownership Structure on Corporate Reputation

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Reputation (t-1)	0.58 *** (0.07)	0.61 *** (0.06)	0.64 *** (0.05)	0.66 *** (0.06)	0.66 *** (0.06)	0.56 *** (0.07)	0.64 *** (0.05)
Ownership concentration main shareholder	-0.01 † (0.00)	0.01 (0.01)					
Ownership concentration main shareholder squared		-0.00 * (0.00)					
Ownership concentration second shareholder			0.00 (0.01)				
Difference in ownership concentration between the main and second shareholder				-0.14 (0.11)			
Insider ownership					-0.00 (0.00)	0.01 ** (0.00)	
Insider ownership squared						-0.00 ** (0.00)	
Family or individual							-0.01 (0.04)
Pressure-sensitive institutional investor							-0.11 * (0.04)
Pressure-resistant institutional investor							-0.11 *** (0.03)
Board size	0.35 † (0.18)	0.52 ** (0.16)	-0.09 (0.15)	0.28 † (0.17)	0.05 (0.16)	0.18 (0.18)	0.11 (0.12)
Independent directors	0.35 (0.22)	0.36 † (0.20)	0.37 ** (0.12)	0.36 * (0.16)	0.43 *** (0.09)	0.38 *** (0.11)	0.42 *** (0.10)
Insider directors	-0.11 (0.33)	0.18 (0.34)	-0.20 (0.25)	-0.18 (0.35)	-0.36 (0.25)	-0.45 (0.30)	-0.17 (0.18)
Duality	-0.12 * (0.06)	-0.09 (0.06)	-0.06 (0.05)	-0.08 (0.06)	-0.13 ** (0.05)	-0.15 ** (0.05)	-0.06 † (0.03)
Size	-0.03 (0.03)	-0.01 (0.03)	-0.00 (0.02)	-0.02 (0.02)	-0.02 (0.02)	0.05 (0.03)	-0.00 (0.01)
Age	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 † (0.00)	-0.00 * (0.00)	-0.00 (0.00)	-0.00 * (0.00)
ROE	0.42 *** (0.11)	0.55 *** (0.12)	0.33 ** (0.10)	0.38 ** (0.12)	0.35 *** (0.10)	0.37 ** (0.13)	0.42 *** (0.11)
Inverse Mills Ratio	-0.06 (0.11)	-0.13 * (0.06)	-0.09 (0.06)	-0.11 † (0.06)	-0.14 (0.06)	-0.01 (0.07)	-0.09 (0.05)
intercept	2.98 *** (0.56)	1.87 ** (0.60)	3.07 *** (0.47)	2.33 *** (0.55)	2.97 *** (0.64)	1.99 *** (0.49)	2.70 *** (0.46)
Time effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F	104.17 *** (22, 58)	132.97 *** (23, 58)	80.66 *** (22, 58)	82.74 *** (22, 58)	79.32 *** (22, 58)	94.94 *** (23, 58)	992.01 *** (24, 58)
AR(1)	-4.62 ***	-4.74 ***	-4.53 ***	-4.75 ***	-4.42 ***	-3.53 ***	-4.32 ***
AR(2)	0.35	0.25	0.30	0.29	0.43	0.34	0.24
Hansen	23.53 (21)	29.29 (24)	26.71 (21)	25.48 (21)	26.49 (21)	24.05 (24)	37.57 (36)

Unstandardized coefficients.

†p<0.10; *p<0.05; **p<0.01; ***p<0.001

TABLE 3 (continued)
Results of Dynamic Panel Data Analyses of the Influence of Ownership Structure on Corporate Reputation

	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15
Reputation (t-1)	0.52 *** (0.06)	0.52 *** (0.07)	0.46 *** (0.05)	0.51 *** (0.07)	0.58 *** (0.07)	0.59 *** (0.07)	0.58 *** (0.05)	0.58 *** (0.05)
Ownership concentration main shareholder	-0.01 ** (0.00)	-0.00 (0.01)	-0.01 *** (0.00)	-0.00 (0.01)				
Ownership concentration main shareholder squared		-0.00 (0.00)		-0.00 (0.00)				
Ownership concentration second shareholder	0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.01 (0.01)				
Difference in ownership concentration between the main and second shareholder					-0.35 * (0.14)	-0.22 * (0.10)	-0.37 ** (0.11)	-0.24 * (0.12)
Insider ownership	-0.00 ** (0.00)	0.01 ** (0.00)	-0.00 * (0.00)	0.01 † (0.00)	-0.00 *** (0.00)	0.01 ** (0.00)	-0.00 *** (0.00)	0.01 * (0.00)
Insider ownership squared		-0.00 ** (0.00)		-0.00 † (0.00)		-0.00 ** (0.00)		-0.00 ** (0.00)
Family or individual			-0.06 (0.05)	-0.12 (0.11)			0.08 † (0.04)	-0.08 (0.06)
Pressure-sensitive institutional investor			-0.12 * (0.06)	-0.16 * (0.07)			0.00 (0.05)	-0.11 * (0.05)
Pressure-resistant institutional investor			-0.19 ** (0.07)	-0.19 * (0.09)			-0.11 † (0.06)	-0.25 *** (0.06)
Board size	0.42 * (0.17)	0.75 *** (0.18)	0.57 *** (0.14)	0.55 ** (0.19)	0.22 (0.18)	0.35 † (0.20)	0.38 ** (0.14)	0.33 * (0.14)
Independent directors	0.24 ** (0.09)	0.31 ** (0.12)	0.22 * (0.10)	0.25 * (0.11)	0.25 * (0.11)	0.24 * (0.10)	0.35 *** (0.08)	0.38 *** (0.11)
Insider directors	0.25 (0.32)	0.23 (0.36)	0.24 (0.31)	-0.04 (0.38)	-0.15 (0.43)	-0.35 (0.33)	-0.43 (0.26)	-0.21 (0.25)
Duality	-0.12 ** (0.04)	-0.10 * (0.05)	-0.15 ** (0.05)	-0.13 * (0.06)	-0.10 † (0.06)	-0.12 * (0.05)	-0.08 † (0.04)	-0.16 ** (0.05)
Size	-0.03 (0.02)	-0.00 (0.04)	-0.02 (0.02)	0.00 (0.04)	-0.01 (0.02)	0.02 (0.03)	-0.02 (0.01)	0.02 (0.02)
Age	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 † (0.00)	0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)
ROE	0.39 *** (0.11)	0.61 *** (0.13)	0.44 ** (0.15)	0.33 (0.25)	0.25 * (0.12)	0.35 ** (0.11)	0.37 *** (0.09)	0.24 † (0.12)
Inverse Mills Ratio	-0.16 * (0.06)	0.01 (0.06)	-0.16 ** (0.06)	-0.04 (0.07)	-0.17 ** (0.06)	-0.02 (0.06)	-0.17 ** (0.06)	-0.09 (0.06)
intercept	3.27 *** (0.54)	1.62 † (0.90)	3.47 *** (0.39)	2.67 ** (0.93)	3.21 *** (0.72)	2.27 *** (0.62)	2.88 *** (0.49)	2.45 *** (0.41)
Time effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F	244.34 *** (24, 58)	1990000.00 *** (26, 58)	312.94 *** (27, 58)	7110000.00 *** (30, 58)	90.96 *** (23, 58)	1790000.00 *** (24, 58)	1849.04 *** (26, 58)	5980000.00 *** (27, 58)
d.f.								
AR(1)	-2.79 **	-3.70 ***	-3.47 ***	-2.93 **	-1.76 †	-2.50 *	-2.30 *	-3.31 ***
AR(2)	0.10	-0.05	0.29	0.18	0.04	0.16	0.16	0.35
Hansen	28.53 (27)	28.96 (33)	26.55 (36)	22.27 (41)	24.57 (24)	25.33 (27)	28.70 (33)	28.26 (36)
d.f.								

Unstandardized coefficients.
†p<0.10; *p<0.05; **p<0.01; ***p<0.001

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APPENDIX

ITEMS OF THE MERCO INDEX

1. Financial and Economic Performance

- a. Book profit
- b. Profitability
- c. Quality of economic information

2. Quality of Product or Service

- a. Product value
- b. Brand value
- c. Customer service

3. Corporate Culture and Workplace Quality

- a. Suitability of corporate culture to business project
- b. Workplace quality
- c. Valuation and reward

4. Ethics and Corporate Social Performance

- a. Business ethics
- b. Commitment to the community
- c. Social and environmental responsibility

5. Global Dimension and International Presence

- a. International expansion
- b. Strategic alliances
- c. Online relation with stakeholders (strategic position in the web)

6. Innovation

- a. R&D investment
 - b. Renewal of product and services portfolio
 - c. New channels of distribution
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